LEGISLATIVE DIGEST
HOUSE REPUBLICAN CONFERENCE | CHAIRMAN ADAM PUTNAM
1420 LONGWORTH HOB, WASHINGTON, DC 20515 www.GOP.gov PHONE 202.225.5107 FAX 202.226.0154

H.R. 6251 – Responsible Federal Oil and Gas Lease Act

FLOOR SITUATION

H.R. 6251 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Nick Rahall (D-WV) on June 12, 2008. The bill was referred to the House Committee on Natural Resources, but was never considered.

H.R. 6251 is expected to be considered on the floor of the House on June 26, 2008.

SUMMARY

Issuance of New Leases: The bill prohibits the Department of the Interior from issuing any new oil or gas leases on onshore or offshore federal lands unless the person (or entity) certifies that they are 1) "diligently developing" the existing lease areas to produce oil or natural gas (or already producing oil or natural gas); or 2) have given up all existing federal oil and natural gas leases. Within 180 days of enactment, the Secretary of the Interior must issue regulations defining what constitutes "diligently developing."

> ***Note: Under this legislation, a company could be penalized if it does not produce oil or gas from areas that do not actually have oil or gas in paying quantities, or from areas that may not be developed because required environmental studies, permits, and other procedural and construction factors are incomplete. The bill appears to breach contract terms stipulated in existing leases.*

Failure to Comply: The bill imposes civil penalties on individuals (or entities) who fail to comply with these requirements. This penalty starts at $500 per violation for each day the violation continues and can increase to up to $10,000 per violation for each day it continues.

BACKGROUND

A lease is the first step in a multi-step process required by the Federal government for an oil company to drill for energy. Once a lease is secured, a comprehensive and expensive exploration process begins that can require years of mapping, testing, drilling and construction. According to data from the Department of the Interior, 97% of federal offshore areas and 94% of federal onshore areas are not leased for oil and gas production.

The Mineral Leasing Act requires energy companies to have a producing ground well within ten years or the lease will be lost. Prior to 1992, this lease term was five years, but was increased to ten years by a Democratic House with the Energy Policy Act of 1992. With regards to Federal offshore oil and gas leases, an oil company must produce energy within five to ten years, according to the Outer Continental Shelf Lands Act (P.L.103-426).

Federal onshore and offshore natural gas, oil, and mineral development is managed by the Bureau of Land Management (BLM) and the Mineral Management Service. Public lands containing oil and gas deposits may only be leased to U.S. citizens, corporations organized under federal or State law, and municipalities. Leases are conditioned upon payment to the federal government of at least 12.5% of the value of oil or gas that is removed or sold from leased land. However, the Secretary of the Interior may waive or reduce such royalties under certain circumstances.

According to a June 23, 2008, letter from the independent American Association of Petroleum to Speaker Pelosi: "The process of leasing, evaluating, drilling, and developing an oil or natural gas field typically takes five to ten years. Some fields come online sooner. Others are delayed by permitting or regulatory delays or constraints in the availability of data acquisition and drilling equipment and crews… Oil and natural gas exploration is not simple and it is not easy. It requires geological ingenuity, advanced technologies, and the time to do the job right. It also requires access to areas where exploration ideas can be tested – the greater the number of areas available for exploration, the higher the chance of finding oil and natural gas traps." Currently, 97 percent of Federal offshore areas are not leased, and 94 percent of Federal onshore areas are not leased.

ADDITIONAL INFORMATION

Department of Interior letter regarding the oil and gas report issued by House Committee on Natural Resources Democrats: "The report does not reference specific locations for much of the data and therefore we cannot ascertain where each of the numbers was derived. It appears the report took raw data, some of which can be found on the Department websites, and then used various formulas to reach certain conclusions. The report does not disclose the assumptions or formulas used. The views contained in the report are based on a misunderstanding of the very lengthy regulatory process." (DOI Letter, 6/25/08)

According to a June 26, 2006 Statement of Administration Policy:
"The Administration strongly opposes H.R. 6251 as introduced, which would prohibit the granting of new oil or gas exploration or production leases both onshore and offshore to any entity that is not "diligently developing" its existing leases. This bill would discourage the development of domestic energy resources, drive up gas prices, and reduce the Nation's energy security. If H.R. 6251 were presented to the President, his senior advisors would recommend that he veto the bill." (Statement of Administration Policy, 6/26/08)

GOP Conference: Democrat "Use-It-or-Lose-It" Claims Debunked by Expert, Independent Voices

COST

The Congressional Budget Office did not have a score available for H.R. 6251 as of June 25, 2008. However, concerns have been raised that the bill does not comply with PAYGO because it would result in fewer leases and less energy, and therefore fewer revenues.

STAFF CONTACT

For questions or further information contact Adam Hepburn (202) 226-2302.